



Report of Independent Auditors
and Financial Statements

**Public Hospital District No. 1
of Skagit County, Washington**

December 31, 2024 and 2023



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Management's Discussion and Analysis

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Years Ended December 31, 2024 and 2023

This discussion and analysis provides an overview of the financial position and financial activities of Public Hospital District No. 1 of Skagit County, Washington (the District). The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division, which is known as Skagit Regional Clinics (SRC) was acquired when SVH employed the physicians of the former Skagit Valley Medical Center (SVMC) and started operations. On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH and the SRC operations. On June 1, 2016, the District began leasing the facilities of Public Hospital District No. 3 of Snohomish County and providing hospital and clinic services under the name Cascade Valley Hospital and Clinics (CVH).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes, which follow this section.

The statements of net position and the statements of revenues, expenses, and changes in net position report information about the District's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. These two statements report the District's net position and changes in it. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

Financial Highlights

- SRH's total operating revenue increased by \$81.1 million (13.3%), from \$609.4 million in 2023 to \$690.5 million in 2024. Over the same period, total operating expenses increased by \$88.3 million (14.8%), from \$595.8 million to \$684.1 million.
- SRH ended 2024 with operating income of \$6.4 million, compared to operating income of \$13.7 million in 2023. In 2024, SRH also recognized net non-operating income of \$16.1 million, capital contributions of \$3.2 million, and a gain on transfers of assets of \$0.3 million, resulting in a total increase in net position of \$26.1 million.
- The District successfully completed implementation of its new Enterprise Resource Planning (ERP) system, Infor CloudSuite, in early 2025. The project began in 2022 and was implemented in phases, with the Human Capital Management module going live in fall 2023, followed by the Financial and Supply Chain Management and Payroll modules in January 2025. While additional modules and functionality may be added in future years, the core system is now fully implemented and in service. The total cost of the system, including capital and operating expenses, is projected to be approximately \$11.2 million.
- In 2023, the District adopted Government Accounting Standards Board (GASB) Statement No. 96, which provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs). The adoption resulted in the recognition of \$1.4 million in subscription assets, \$1.1 million in related liabilities, and a restatement of beginning net position as of January 1, 2023 by \$0.3 million.

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- In 2024, the District adopted GASB Statement No. 101, Compensated Absences, which amends GASB 16 by requiring governments to estimate and report earned but unvested leave that is more likely than not to be used. As a result, the District's Extended Illness Benefit (EIB) and Sick Leave (SL) plans, which are typically forfeited at termination, are now included in compensated absences liabilities. These liabilities are now presented as current compensated absences and long-term compensated absences on the Statements of Net Position. The adoption resulted in the recognition of a compensated absence liability of \$9.9 million and a restatement of beginning net position as of January 1, 2024 of \$8.8 million.
- The Mount Vernon Surgery Center and Medical Office Building (MVSC), a three-story, 60,000 square foot facility located northwest of SVH, opened to patients in December 2023 and was fully operational throughout 2024. The facility includes four operating rooms, three endoscopy suites, one procedure room, diagnostic imaging, and 62 outpatient exam rooms serving specialties such as Gastroenterology, ENT, Orthopedics, Interventional Pain Medicine, Foot and Ankle, Spine Surgery, Urology, General Surgery, Podiatry, Plastic Surgery, Gynecology, and Pain Management.
- In February 2024, the District issued \$75.2 million in Series 2024 Hospital Revenue Bonds (2024 Bonds). Proceeds from the bond issuance were used to purchase the Station Square Medical Office Building (Station Square MOB), furnish and equip the MVSC, and to support the planned construction of a new medical office building in the District's southern market, centered around Cascade Valley Hospital.
- In April 2024, the District exercised its purchase option and acquired the Station Square MOB for \$26.4 million, using proceeds from the 2024 Bonds. The District had initially leased the three-story, 30,000 square foot facility when it opened to patients in January 2023. The facility supports demand for additional medical office space and primary care services, including urgent care, laboratory, imaging, and primary care clinics, all operated as departments of SRH.

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Operating Statistics

Following are key operating statistics for the years ended December 31, 2024, 2023, and 2022:

Statistical Volumes and Definitions ⁽¹⁾

VOLUME	2024	2023	2022
Skagit Valley Hospital			
Admissions (excludes Newborns)			
Medical/Surgical	7,302	6,786	5,599
Obstetrics	1,144	966	1,101
Behavioral Health	390	334	371
Total Admissions	8,836	8,086	7,071
Discharges (excludes Newborns)			
Medical/Surgical	6,475	6,349	5,582
Obstetrics	1,086	929	1,053
Behavioral Health	408	347	383
Total Discharges	7,969	7,625	7,018
Patient Days (excludes Newborns)			
Medical/Surgical	35,492	34,104	34,441
Obstetrics	2,170	1,878	1,767
Behavioral Health	4,068	3,870	3,653
Total Patient Days	41,730	39,852	39,861
Average Length of Stay (excludes Newborns)			
Medical/Surgical	5.48	5.37	6.17
Obstetrics	2.00	2.02	1.68
Behavioral Health	9.97	11.15	9.54
Total Overall Average Length of Stay	5.24	5.23	5.68
Inpatient Occupancy (excludes Newborns)	83.2%	79.7%	79.7%
Surgical Cases			
Inpatient Cases	1,346	1,221	1,073
Outpatient Cases	7,600	6,580	5,829
Total Surgical Cases	8,946	7,801	6,902
Endoscopy Cases	9,102	8,249	6,792
Deliveries	1,052	888	888
Emergency Department Visits ⁽²⁾	36,760	34,170	33,733
Oncology Visits			
Medical Visits	29,498	26,430	21,708
Radiation Therapy Visits	11,289	11,052	10,466
Total Oncology Visits	40,787	37,482	32,174
Diagnostic Imaging Procedures			
CT	34,096	27,607	25,051
MRI	13,528	10,615	9,786
X-Ray	91,862	81,446	74,823
Other Diagnostic Imaging	42,547	42,848	41,079
Total Diagnostic Imaging Procedures	182,033	162,516	150,739
Cath Lab Procedures	4,601	3,789	3,543

⁽¹⁾ Volumes include all patients unless otherwise noted.

⁽²⁾ Includes those patients who are later admitted.

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Statistical Volumes and Definitions ⁽¹⁾

VOLUME	2024	2023	2022
Cascade Valley Hospital			
Admissions (excludes Newborns)			
Medical/Surgical	1,912	1,809	1,429
Obstetrics	100	224	211
Total Admissions	2,012	2,033	1,640
Discharges (excludes Newborns)			
Medical/Surgical	1,893	1,767	1,422
Obstetrics	101	216	203
Total Discharges	1,994	1,983	1,625
Patient Days (excludes Newborns)			
Medical/Surgical	8,890	9,116	8,010
Obstetrics	184	398	389
Total Patient Days	9,074	9,514	8,399
Average Length of Stay (excludes Newborns)			
Medical/Surgical	4.70	5.16	5.63
Obstetrics	1.82	1.84	1.92
Total Overall Average Length of Stay	4.55	4.80	5.17
Inpatient Occupancy (excludes Newborns)	51.7%	54.3%	47.9%
Surgical Cases			
Inpatient Cases	558	602	446
Outpatient Cases	2,288	1,775	1,375
Total Surgical Cases	2,846	2,377	1,821
Endoscopy Cases	1,725	1,899	1,409
Deliveries	91	188	186
Emergency Department Visits ⁽²⁾	23,998	22,311	22,218
Diagnostic Imaging Procedures			
CT	14,906	11,031	9,186
MRI	2,034	1,958	1,466
X-Ray	15,482	13,307	12,694
Other Diagnostic Imaging	19,728	15,563	11,589
Total Diagnostic Imaging Procedures	52,150	41,859	34,935
Skagit Regional Health - Clinics			
Provider Clinic Visits			
Primary Care Clinic Visits	242,056	211,127	207,046
Specialty Care Clinic Visits	248,705	224,132	203,877
Total Provider Clinic Visits	490,761	435,259	410,923

⁽¹⁾ Volumes include all patients unless otherwise noted.

⁽²⁾ Includes those patients who are later admitted.

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Performance Overview

The following is a comparison of 2024 actual revenues, expenses, and changes in net position results to 2023 and 2022 results (in thousands):

	2024	2023 ⁽¹⁾	2022 ⁽²⁾
Operating revenues			
Net patient service revenue	\$ 660,421	\$ 575,012	\$ 492,083
Other operating revenues	30,067	34,435	31,485
Total operating revenues	<u>690,488</u>	<u>609,447</u>	<u>523,568</u>
Operating expenses			
Salaries and wages	304,290	263,538	240,993
Employee benefits	71,719	61,387	53,225
Professional fees	38,167	40,057	41,671
Supplies	125,059	111,098	95,054
Purchased services and other	93,316	82,048	86,496
Depreciation and amortization	35,415	28,038	25,815
Interest and amortization	16,086	9,624	6,118
Total operating expenses	<u>684,052</u>	<u>595,790</u>	<u>549,372</u>
Operating income (loss)	6,436	13,657	(25,804)
FEMA and other assistance	3,790	-	1,551
Other nonoperating income, net	12,338	11,885	779
Nonoperating income, net	16,128	11,885	2,330
Capital contributions	3,217	1,126	311
Gain on transfer of assets	339	1,019	1,143
Change in net position	26,120	27,687	(22,020)
Net position, beginning of year	210,688	191,752	213,772
Cumulative effect of restatement	-	(8,751)	-
Net position, beginning of year, restated	210,688	183,001	135,150
Net position, end of year	<u>\$ 236,808</u>	<u>\$ 210,688</u>	<u>\$ 191,752</u>

⁽¹⁾ The 2023 amounts have been adjusted for adoption of GASB 101.

⁽²⁾ The 2022 amounts have been adjusted for adoption of GASB 96.

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Health Care Outlook

In 2024, SRH experienced its second year of significant post-COVID-19 growth and better-than-budgeted financial performance. Our outlook for the future reflects SRH's solid financial position, an evolving health care landscape, and plans to adapt to market trends and challenges as outlined in our new three-year, board-led strategic plan.

Revenue Growth

In the coming years, SRH expects continued growth in both patient volumes and services offered. Key drivers include:

- Strong projected population growth in SRH's primary and secondary service areas (North Snohomish, Skagit, and Island counties). SRH maintains market dominance in Skagit County and has seen sustained growth in North Snohomish and Island Counties.
- Continued successful recruitment of both primary and specialty care providers to meet the health care needs of the communities it serves.
- Expansion of surgical and specialty clinic capacity with the opening of the MVSC and Station Square MOB.
- The planned opening of a specialty pharmacy in early 2025.

Operating Expenses and Efficiencies

Looking forward, SRH expects continued effort to control costs and improve efficiency of operations. Key drivers include:

- SRH continues to direct attention and resources toward leveraging technology to reduce waste and administrative inefficiencies, improve provider productivity, and reduce payer denials.
- Workforce development remains a key area of emphasis. To keep up with demand, it is essential to retain a robust and well trained workforce. SRH offers several in-house residency and technical certification programs including those for Registered Nurse (RN), pharmacists, high-tech imaging professionals, and medical assistants (MAs). In addition, the Medical Education program has been a consistent source of physician recruitment.
- A highly skilled labor force, particularly in Western Washington, is costly. Ensuring SRH maintains the right mix of staff to provide high-quality patient care remains an area of focus.
- Supply chain management is an area of opportunity when it comes to further optimizing costs. SRH continues to explore opportunities such as vendor consolidation to drive savings and improve efficiency.

Risk and Uncertainty

The health care industry continues to face risks that may impact future performance:

- Ongoing changes to federal and Washington State health care and tax policy remain a key area of concern, including potential reductions in Medicare and Medicaid funding and several newly proposed state-level taxes.
- The implementation of new tariffs could increase the cost of essential medical supplies, equipment, and other critical resources.

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- Payer practices involving burdensome pre-authorization processes and claim denials continue to put downward pressure on operating margins.
- Cybersecurity remains a critical area of focus for risk mitigation and operational resilience.

While uncertainty remains in the healthcare environment, management is confident in its ability to adapt and execute strategies to support improved financial performance—ensuring SRH remains well-positioned to fulfill its mission: Exceptional health care, always.

Operating Revenue (in thousands)

Net Patient Revenue

Net patient revenue consists of gross patient charges less contractual adjustments, financial assistance, and a provision for uncollectible accounts. Contractual adjustments represent the difference between gross patient charges at established rates and expected contracted payments from third-party payors with which the District has entered into agreements. In addition, the District provides care to patients, at no charge or reduced rates, who meet certain criteria under its financial assistance policies. The District also estimates the collectability of accounts receivable and records a provision for uncollectible accounts. The resulting net patient revenue is highly dependent on the District's payor mix and patient utilization patterns.

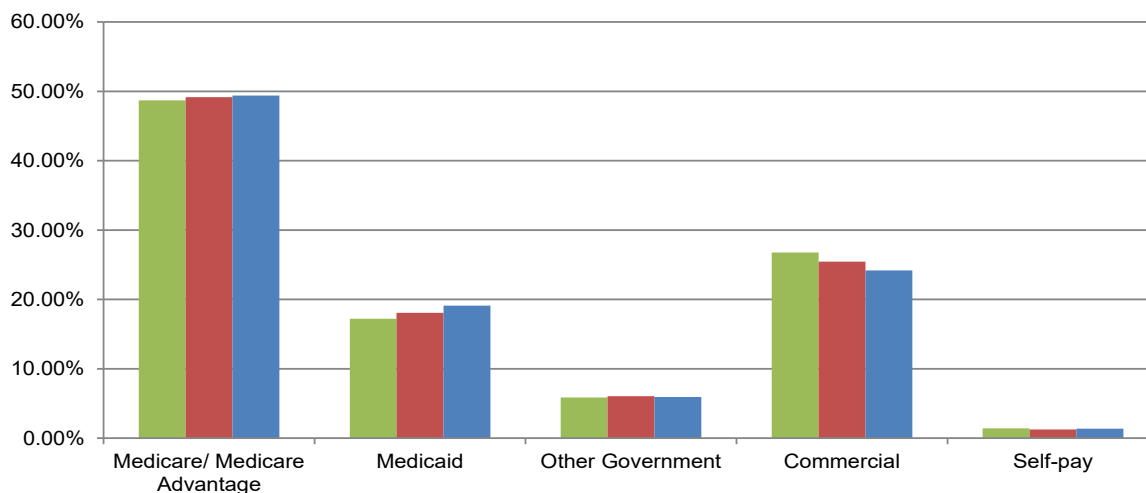
The table and graph below illustrate the three-year trend in SRH's payor mix, based on gross patient charges, for the years ended December 31, 2022 through 2024.

	Years Ended December 31,		
	2024	2023	2022
Payor Mix			
Medicare / Medicare Advantage	48.70%	49.17%	49.390%
Medicaid	17.23%	18.07%	19.12%
Other Government	5.88%	6.05%	5.93%
Commercial	26.78%	25.46%	24.19%
Self Pay	1.41%	1.25%	1.37%
	100.00%	100.00%	100.00%

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In 2024, SRH net patient service revenue increased by \$85,409 (14.9%) compared to 2023. The increase was primarily driven by higher inpatient and outpatient hospital volumes and clinic visits, including new volume from the MVSC, which opened in December 2023.

In 2023, net patient service revenue increased by \$82,929 (16.9%) compared to 2022, also due to volume growth across inpatient, outpatient, and clinic services. In addition, the District recognized approximately \$15,500 in net patient service revenue related to the Centers for Medicare & Medicaid Services (CMS) remedy for the invalidated 340B-acquired drug payment policy, applicable to calendar years 2018 through 2022.

Other Operating Revenue

Other operating revenue decreased by \$4,368 (12.7%) from \$34,435 in 2023 to \$30,067 in 2024. The decrease was primarily driven by lower revenues in the 340B contracted pharmacy program. In 2023, other operating revenue increased by \$2,950 (9.4%) from \$31,485 in 2022 to \$34,435 in 2023, due to higher revenues in the 340B contracted pharmacy program and favorable market value adjustments on restricted funds.

Operating Expenses (in thousands)

Total operating expenses increased by \$88,262 (14.8%) in 2024, from \$595,790 in 2023 to \$684,052. This compares to an increase of \$46,418 (8.4%) in 2023, when total operating expenses rose from \$549,372 in 2022.

Excluding providers, the District employed 2,303 full-time equivalents (FTEs) as of December 31, 2024 – an increase of 296 FTEs from the 2,106 employed at year-end 2023 and a two-year increase of 442 FTEs compared to 1,961 in 2022. FTE growth in 2024 was driven by increased retention efforts, recruitment support from external staffing firms, volume growth, and staffing needs related to the opening of the MVSC.

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As of year-end 2024, SRH employed 276 providers, including 151 physicians, 29 residents, and 96 mid-level providers. This reflects a net increase of 27 providers from year-end 2023, comprised of 9 additional physicians and 18 additional mid-level providers. The change reflects a combination of normal attrition, provider relocations, and expanded recruitment efforts. The number of residents in SRH's graduate medical education programs decreased by 5 from 2023 to 2024.

Salaries and benefits increased by \$51,084 (15.7%) in 2024, from \$324,925 in 2023 to \$376,887. In 2023, salaries and benefits increased by \$30,707 (10.4%), up from \$294,218 in 2022. Growth in both years was driven by wage increases for union and non-union staff and providers, including market-based adjustments, as well as additional spending on shift incentive pay and signing bonuses.

The 2024 increase also reflects higher medical benefit expenses related to the District's transition to a self-funded health plan. In addition, a new three-year collective bargaining agreement with the Washington State Nurses Association (WSNA) was ratified in 2024. The agreement included first-year wage increases ranging from 9.0% to 13.5%, with additional annual increases of 3.75% in each of the following two years, contributing to the year-over-year growth in salary and benefit expenses.

Professional fees decreased by \$1,890 (4.7%) in 2024, from \$40,057 in 2023 to \$37,289. In 2023, professional fees decreased by \$1,614 (3.9%), down from \$41,671 in 2022. The decrease in both years was primarily driven by lower utilization and reduced rates for contract labor, as the District continued efforts to stabilize internal staffing and reduce reliance on external labor sources.

Supply expense increased by \$13,961 (12.6%) in 2024, from \$111,098 in 2023 to \$125,059. In 2023, supply expense increased by \$16,044 (16.9%), up from \$95,054 in 2022. The increases in both years were primarily driven by higher volumes and increased costs of pharmaceuticals and other patient-related supplies, along with broader inflationary pressures on the supply chain, including worldwide shortages of certain pharmaceuticals and related supply chain disruptions.

Purchased services and other expenses increased by \$11,268 (13.7%) in 2024, from \$82,048 in 2023 to \$93,316. The increase was primarily driven by higher volume associated with the Cascade Imaging Associates, LLC, joint venture. In 2023, purchased services and other expenses decreased by \$4,448 (5.1%), from \$86,496 in 2022 to \$82,048, primarily due to a reduction in COVID-19-related laboratory testing expenses.

Depreciation and amortization expense increased by \$7,377 (26.3%) in 2024, from \$28,038 in 2023 to \$35,415. The increase was primarily due to amortization related to leases for a patient monitoring system and endoscopy scopes, as well as depreciation of capital equipment placed into service at the MVSC. In 2023, depreciation and amortization expense increased by \$2,223 (8.6%), from \$25,815 in 2022 to \$28,038, largely due to the reporting of the MVSC and Station Square MOB under GASB 87, and the implementation of GASB 96, which was retroactively applied to 2022.

Interest and amortization expense increased by \$6,462 (67.1%) in 2024, from \$9,624 in 2023 to \$16,086. The increase was primarily driven by interest expense on the 2024 Bonds, which were issued in February 2024. In 2023, interest and amortization expense increased by \$3,506 (57.3%), from \$6,118 in 2022 to \$9,624, largely due to the reporting of lease-related interest under GASB 87 for the MVSC and Station Square MOB.

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Net Nonoperating Income and Other Changes in Net Position (in thousands)

Net nonoperating income increased by \$4,243 (35.7%) in 2024, from \$11,885 in 2023 to \$16,128. The increase was primarily driven by FEMA COVID-19 funding received during the year, as well as higher investment income and favorable market value adjustments. In 2023, net nonoperating income increased by \$9,555 (410.1%), from \$2,330 in 2022 to \$11,885, primarily due to increased investment income and favorable market value adjustments, partially offset by reduced FEMA COVID-19 funding compared to prior years.

Capital contributions totaled \$3,217 in 2024, an increase of \$2,091 (185.7%) compared to \$1,126 in 2023. The increase was primarily due to a donation of \$3,000 in 2024 from the Skagit Valley Hospital Foundation, as part of a fundraising campaign to support the remodel of the SVH cardiac catheterization labs.

Gain on transfers of assets decreased by \$680 (66.7%) in 2024, from \$1,019 in 2023 to \$339. In 2023, the gain decreased by \$124 (10.8%) from \$1,143 in 2022. These gains relate to the affiliation agreement with Snohomish County Public Hospital District No. 3, under which assets are periodically transferred in accordance with the terms of the agreement. Additional information can be found in the "Affiliation Agreement with Snohomish County PHD No. 3" section below.

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Statements of Net Position (in thousands)

The following is a presentation of certain financial information derived from the District's statements of net position (in thousands):

	2024	2023 ⁽¹⁾	2022 ⁽²⁾
Current assets			
Cash and short-term investments	\$ 64,052	\$ 47,783	\$ 39,312
Accounts receivable, net	102,660	88,766	63,409
Other current assets	23,085	17,929	16,820
Total current assets	189,797	154,478	119,541
Investments	36,504	15,793	20,772
Other noncurrent cash and investments, net of current portion	157,951	132,929	129,801
Capital assets, net	161,420	141,797	128,718
Right to use and subscription assets, net	139,690	173,797	90,088
Investments in joint ventures	11,534	12,799	13,376
Long term lease receivable	3,959	4,325	4,562
Total assets	700,855	635,918	506,858
Deferred outflows of resources	4,230	4,737	4,408
Total assets and deferred outflows of resources	\$ 705,085	\$ 640,655	\$ 511,266
Current liabilities	\$ 124,299	\$ 145,296	\$ 87,260
Lease and subscription liability, net of current portion	134,350	138,130	84,751
Long-term debt, net of current portion	184,600	121,267	129,572
OPEB liability	7,872	7,336	5,724
Estimated professional liability	7,453	8,075	7,436
Compensated Absence, net of current portion	5,587	5,419	-
Total liabilities	464,161	425,523	314,743
Deferred inflows of resources	4,117	4,444	4,771
Net position			
Net investment in capital assets	8,562	38,135	18,735
Restricted for debt service	14,274	10,868	10,421
Unrestricted	213,971	161,685	162,596
Total net position	236,807	210,688	191,752
Total liabilities, deferred inflows of resources, and net position	\$ 705,085	\$ 640,655	\$ 511,266

⁽¹⁾ The 2023 amounts have been adjusted for adoption of GASB 101.

⁽²⁾ The 2022 amounts have been adjusted for adoption of GASB 96.

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Assets and Deferred Outflows of Resources

Total current assets of \$189,797 at December 31, 2024, were \$35,319 (22.9%) higher than at year-end 2023. This increase is comprised of a \$16,269 (28.8%) increase in cash and short-term investments, a \$13,894 (15.7%) increase in net accounts receivable, and an increase of \$5,155 (27.5%) in other current assets. The increase in cash and short-term investments was related to the receipt of the 340B-acquired drug payment policy remedy, a cash contribution from the Skagit Valley Hospital Foundation, positive operating results, and improved cash collections. The increase in net accounts receivable is attributable to continued growth in volumes across multiple service lines and the recognition of fourth quarter Medicaid state-directed payments that were received in 2025. Other current assets increased due to higher prepaid balances and supply inventories at year-end.

Total current assets of \$154,478 at December 31, 2023, were \$34,937 (29.2%) higher than at year-end 2022. This increase is comprised of a \$8,471 (21.5%) increase in cash and short-term investments, an increase of \$25,357 (40.0%) in net accounts receivable and an increase of \$1,109 (6.6%) in other current assets. The increase in cash and short-term investments was related to positive cash flows from operations and the increase in net accounts receivable is attributable to growth in volumes throughout the year and the 340B-acquired drug payment policy remedy that was received in January of 2024.

Investments increased \$20,711 (131.1%) in 2024 from \$15,793 in 2023 to \$36,504 in 2024. The increase was primarily due to the replenishment of previously expended funds used to furnish the MVSC, following the issuance of the 2024 revenue bonds. Investments decreased \$4,979 (24.0%) in 2023 from \$20,772 in 2022 to \$15,793 in 2023. Capital purchases to furnish and equip MVSC and Station Square MOB were the primary reason for this decrease.

Other noncurrent cash and investments, net of current portion increased from \$132,929 in 2023 to \$157,951 in 2024, an increase of \$25,022 (18.8%). This change reflects activity across several board-designated and restricted funds. The board-designated fund for capital improvements increased \$4,177 (3.7%) due to investment gains and income, while the board-designated fund for professional liability increased \$62 (3.7%) for similar reasons. The restricted bond projects fund was established in 2024 to hold remaining proceeds from the 2024 Bonds; these funds are invested until drawn for eligible project costs. At December 31, 2024, the balance in these funds was \$20,779. CVH Project A & B restricted funds decreased \$2,862 (33.7%) from \$8,491 to \$5,629, as these funds were utilized to support capital projects in Snohomish County. The restricted bond reserve increased \$2,868 (30.4%) to \$12,307, reflecting the additional funds required to meet the reserve requirements outlined in the Parity Bonds resolution following issuance of the 2024 Bonds. The restricted bond redemption fund increased \$539 (37.7%) to \$1,968.

Other noncurrent cash and investments, net of current portion increased from \$129,801 in 2022 to \$132,929 in 2023, an increase of \$3,128 (2.4%). The increase was primarily due to market value adjustments on invested funds.

Long-term lease receivable decreased \$366 (8.5%) in 2024 from \$4,325 in 2023 to \$3,959 in 2024. In 2023, the balance decreased \$237 (5.2%) from \$4,562 in 2022. Both decreases were due to regularly scheduled payments received on leased property.

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Net capital assets increased in 2024 by \$19,623 (13.8%) from \$141,797 to \$161,420. The increase was primarily due to the \$26,400 purchase of the Station Square MOB, which was previously accounted for as a right-to-use asset. Gross capital asset additions totaled \$41,631, including \$4,386 in construction-in-progress and \$37,245 in depreciable assets. Nondepreciable capital assets decreased by \$2,006, reflecting additions of \$4,386 and \$6,392 in transfers to depreciable capital assets for projects placed into service. Depreciable capital assets increased by \$32,114, inclusive of those transfers. Gross asset retirements totaled \$11,523, with a net reduction of \$39 to net capital assets after accounting for \$11,484 in accumulated depreciation associated with those retirements. Accumulated depreciation increased by \$10,484 during the year, reflecting \$21,968 in current year depreciation offset by \$11,484 in reductions related to retired assets. Capital spending in 2024 supported facility improvements, including continued multi-year projects to upgrade the SVH Cath Labs and the system-wide nurse call system, equipment replacements, and the completion of previously ongoing construction projects.

Net capital assets increased in 2023 by \$13,079 (10.2%), from \$128,718 to \$141,797. This increase is comprised of \$31,596 of new capital assets, offset by \$136 in retirements and a \$18,381 increase in accumulated depreciation. Equipping and furnishing the Station Square MOB and MVSC in addition to other routine capital projects accounted for the majority of the additions.

Net right-to-use assets decreased \$34,107 (19.6%) in 2024 from \$173,797 in 2023 to \$139,690 in 2024. The primary driver of the decrease was the exercise of the purchase option for the Station Square MOB, which resulted in the termination of the associated right-to-use asset. In total, gross right-to-use assets decreased \$21,203 during the year, reflecting \$6,699 in new additions, \$1,043 in reductions from modifications and renewals, and \$26,858 in terminations. New additions included \$2,523 for building leases, \$3,569 for equipment leases, and \$607 for subscription-based IT arrangements. Accumulated amortization increased \$12,904 during the year, reflecting \$13,447 of current year amortization offset by \$543 in reductions related to lease terminations.

Net right-to-use assets increased by \$83,709 (92.9%) in 2023 from \$90,088 in 2022 to \$173,797 in 2023. The primary driver of the increase was the addition of the MVSC facility lease, which added \$83,216 to the gross right-to-use asset balance. Other additions during the year included \$4,672 in equipment leases and \$7,609 in subscription-based IT arrangements. Reductions to gross right-to-use assets included \$111 in building lease modifications, \$357 in building terminations, and \$2,063 in equipment lease terminations, resulting in a net increase of \$92,966. Accumulated amortization increased \$9,258 during the year, reflecting \$9,657 in current year amortization, offset by \$399 in reductions related to lease terminations.

Investments in joint ventures decreased from \$12,799 in 2023 to \$11,534 in 2024, a decrease of \$1,265 (9.9%). This followed a decrease of \$577 (4.3%) from \$13,376 in 2022 to \$12,799 in 2023. The decreases in both years were primarily due to routine earnings and distributions from joint venture entities.

Deferred outflows of resources decreased from \$4,737 in 2023 to \$4,230 in 2024, a decrease of \$507 (10.7%). The decrease was primarily due to the routine amortization of the deferred loss on bond refunding.

Deferred outflows of resources increased from \$4,408 in 2022 to \$4,737 in 2023, an increase of \$329 (7.5%). The increase was related to a \$1,143 increase in deferred OPEB outflows, partially offset by a \$814 decrease in deferred losses on bond refunding.

Public Hospital District No. 1 of Skagit County, Washington
Management's Discussion and Analysis
Years Ended December 31, 2024 and 2023

Liabilities and Deferred Inflows of Resources

Current liabilities decreased from \$145,296 in 2023 to \$124,298 in 2024, a decrease of \$20,997 (14.5%). The decrease was primarily driven by a \$25,567 (71.7%) reduction in the current portion of right-to-use liabilities, related to the purchase of the Station Square MOB. Other components of current liabilities changed as follows: accounts payable decreased \$3,015 (9.1%), while accrued salaries, wages, and employee benefits increased \$603 (3.3%) and accrued interest increased \$547 (47.2%). Estimated third-party payor settlements increased \$2,633 (9.7%), the current portion of compensated absence increased \$3,520 (18.5%), and the current portion of long-term debt increased \$282 (2.6%).

Current liabilities, as restated due to the implementation of GASB 101, increased from \$91,966 in 2022 to \$145,296 in 2023, an increase of \$53,330 (60.0%). This increase is comprised of an increase of \$5,531 in accounts payable, an increase of \$6,859 in accrued salaries, wages and employee benefits, an increase of \$626 in accrued interest, a \$15,986 increase in estimated payments due to third-party payors, and increases of \$28,188 and \$845 in the current portion of right-to-use liability and long-term debt, respectively. The increase in accrued salaries, wages and employee benefits includes \$4,500 related to the current portion of a new accrued compensated absences liability, established in accordance with GASB 101. The increase in the current portion of right-to-use liabilities includes a \$26,287 reclassification from the long-term portion of the right-to-use liability related to the purchase option on the Station Square MOB.

Lease and subscription liabilities, net of current portion decreased from \$138,130 in 2023 to \$134,350 in 2024, a decrease of \$3,780 (2.7%). New lease obligations totaling \$6,699 were added during the year. The decrease reflects the reclassification of scheduled lease and subscription payments from the long-term portion to the current portion of the liability. Lease and subscription liabilities, net of current portion increased \$53,379 (63.0%) in 2023, from \$84,751 in 2022 to \$138,130 primarily due to the addition of the MVSC building lease, which was partially offset by the reclassification of the long term lease liability related to the purchase option on the Station Square MOB to a current liability.

Long-term debt, net of current portion increased from \$121,267 in 2023 to \$184,600 in 2024, an increase of \$63,333 (52.2%). The increase was primarily due to the issuance of the 2024 Bonds, which added \$75,164 to long-term debt, including principal and premium. This was partially offset by scheduled principal payments, which were reclassified to the current portion of long-term debt during the year. Long-term debt, net of current portion, decreased by \$8,305 (6.4%) in 2023 to \$121,267 from \$129,572 in 2022 on annual debt service payments.

The District's OPEB liability increased \$536 (7.3%) in 2024 from \$7,336 in 2023 to \$7,872 in 2024. The increase was due to normal accrual of the liability and included \$211 related to changes in actuarial assumptions. In 2023, the District's OPEB liability increased \$1,612 (28.2%) from \$5,724 in 2022 to \$7,336 in 2023. The increase was driven by \$617 in changes to actuarial assumptions, \$671 due to economic or demographic experience, and the normal annual accrual of the liability.

The professional malpractice liability reserve decreased by \$622 (7.7%) in 2024, from \$8,075 in 2023 to \$7,453. This decrease was based on the results of the annual actuarial valuation. In 2023, the professional malpractice liability reserve increased by \$639 (6.9%) from \$7,436 in 2022 to \$8,075. The decrease was also based on the annual actuarial valuation, which reflects updated assumptions and claims experience.

Public Hospital District No. 1 of Skagit County, Washington
Management's Discussion and Analysis
Years Ended December 31, 2024 and 2023

Compensated absences, net of current portion increased from \$5,419 in 2023 to \$5,587 in 2024, an increase of \$168 (3.1%). This represents the portion of accrued compensated absences not expected to be paid within one year. The liability was established in 2023 in connection with the implementation of GASB 101, and the prior year has been restated to reflect this change.

Deferred inflows of resources decreased from \$4,444 in 2023 to \$4,117 in 2024, a decrease of \$327 (7.4%). This followed a decrease of \$327 (6.9%) from \$4,771 in 2022 to \$4,444 in 2023. The decreases in both years were due to the routine recognition of deferred lease revenue and the amortization of the deferred gain on bond refunding.

As part of the bond resolutions authorizing the issuance of the 2021 direct placement revenue refunding bond, the 2019 direct placement revenue bond, the 2016 revenue and refunding bonds, and 2024 Bonds, the District agreed to certain covenants regarding liquidity (minimum of 60 days cash on hand (the Liquidity Requirement)) and debt service coverage (minimum of 1.25 debt service coverage ratio (the Coverage Requirement)). The covenants provide that if the District's audited financial statements for any year disclose that the Liquidity Requirement or the Coverage Requirement is not being met, the District is required to retain a hospital consultant for the purpose of making recommendations to the District with a view to restoring compliance with the Liquidity Requirement or the Coverage Requirement, as applicable. If and so long as the District complies in all material respects with the recommendations of such hospital consultant, and so long as the Liquidity Requirement is met and the District's net income available for debt service is at least equal to the annual debt service on the District's outstanding revenue bonds in any year for which the hospital consultant's recommendations are made and any subsequent year for which such recommendations are renewed, the Liquidity Requirement and the Coverage Requirement, as applicable, are deemed satisfied, and the failure of the District to comply with the covenant will not be deemed to be an event of default. The District was in compliance with all covenants for the years ended December 31, 2024 and 2023.

For the year ended December 31, 2022, the District did not meet the Coverage Requirement. In compliance with the covenants, the District retained a healthcare consultant to provide recommendations to restore compliance with the Coverage Requirement. The consultant's report was filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access at emma.msrb.org. In addition to the covenants described above, the 2021 direct placement revenue refunding bond contains provisions that allow the bond holder to impose a default interest rate that is 4% higher than the interest rate otherwise payable under the bond for the period during which the Coverage Requirement is not met. The 2021 bond holder also has the option to elect to not convert the taxable rate currently payable on the 2021 bond to a tax-exempt rate on the conversion date (September 5, 2023) if the Coverage Requirement is not met. The District requested the 2021 bond holder to consent to a waiver of both provisions, which it received. The default interest rate option was not imposed and the 2021 bonds were converted to tax-exempt on the conversation date.

Affiliation Agreement with Snohomish County PHD No. 3

The District and Snohomish County Public Hospital District No. 3 (Cascade Valley Hospital and Clinics) entered into an Affiliation Agreement dated December 4, 2015, under which the District began operating Cascade Valley Hospital on June 1, 2016. The agreement is structured as a 30-year lease, under which the District assumed full operational responsibility for Cascade Valley Hospital and related facilities in exchange for a nominal base rent of \$10 annually. The District is responsible for all associated operating costs, capital improvements, and maintenance of the leased assets.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Years Ended December 31, 2024 and 2023

Under the financial terms of the agreement, Snohomish PHD No. 3 retains responsibility for levying excess and regular property tax levies and managing debt service on its outstanding general obligation bonds. Revenues from the regular levy and lease income from a jointly owned medical office building are used to fund PHD No. 3's ongoing obligations and maintain a minimum cash reserve. Amounts collected in excess of these obligations are transferred to the District in accordance with the terms of the agreement.

Transferred funds are allocated into two support fund pools. Pool A is used to support the delivery of health care services in Snohomish County, fund capital improvements and equipment, and cover operating losses associated with Cascade Valley Hospital. Pool B is funded annually by the District based on a formula outlined in the agreement, and is available for covering Cascade Valley Hospital operating losses not otherwise covered by Pool A, reimbursing the District for capital expenses, and other health care-related expenditures in Snohomish County.

The Affiliation Agreement also includes commitments to maintain specific levels of health care services in North Snohomish County for 5-, 10-, and 30-year periods. The District fulfilled its five-year service obligations in 2021 and continues to meet the ten-year service requirements, which remain in effect through 2026. These include maintaining inpatient and outpatient surgery, general acute care services, and a 24-hour emergency department at Cascade Valley Hospital. The District retains flexibility to modify service delivery so long as it provides an appropriate level of care in North Snohomish County and complies with notice and review provisions outlined in the agreement.

The agreement also includes dispute resolution and unwind provisions, which remain in place but have not been triggered as of December 31, 2024. In the event of termination, a detailed process governs the transfer of assets and any remaining funds from Pool A or Pool B back to Snohomish PHD No. 3.

As of December 31, 2024, there have been no amendments to the Affiliation Agreement, and the District continues to operate Cascade Valley Hospital in accordance with the financial, operational, and service-related obligations outlined in the agreement.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Skagit Regional Health's finances and to show the District's accountability for the money it receives. The District also files quarterly financial and statistical information along with required and voluntary disclosures with Municipal Securities Rulemaking Board's Electronic Municipal Market Access at emma.msrb.org. If you have questions about this report or need additional financial information, contact the District's financial management at Skagit Regional Health Business Center, 1415 East Kincaid Street, Mount Vernon, Washington 98273.

Report of Independent Auditors

The Board of Commissioners
Public Hospital District No. 1
of Skagit County, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Public Hospital District No. 1 of Skagit County, Washington (the District), which comprise the statements of net position as of December 31, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2024 and 2023, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 of the financial statements, in 2024, the District adopted the provisions of Government Accounting Standards Board Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 1 through 16 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on pages 56 and 57 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Everett, Washington
April 17, 2025

Financial Statements

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position
December 31, 2024 and 2023

	2024	2023 (As Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash	\$ 12,824,952	\$ 30,490,019
Short term investments	51,227,086	17,292,802
Patient accounts receivable, less allowance for uncollectible accounts of \$8,062,676 in 2024 and \$8,411,109 in 2023	76,054,094	68,787,703
Other receivables	26,605,781	19,978,450
Supplies inventory	9,784,085	8,852,303
Prepaid expenses and other assets	11,333,426	7,648,752
Current portion of other noncurrent cash and investments	1,967,920	1,428,561
Total current assets	189,797,344	154,478,590
LONG TERM INVESTMENTS	36,504,244	15,792,918
OTHER NONCURRENT CASH AND INVESTMENTS		
Board-designated for capital improvements	117,481,605	113,305,060
Board-designated for professional liability	1,755,422	1,693,289
Restricted bond project funds	20,778,634	-
Restricted for CVH project funds A & B	5,628,588	8,491,486
Restricted bond reserve funds held by trustee	12,306,522	9,439,069
Restricted for bond redemption fund	1,967,920	1,428,561
	159,918,691	134,357,465
Less amounts required for current liabilities	(1,967,920)	(1,428,561)
	157,950,771	132,928,904
CAPITAL ASSETS		
Land	11,688,723	11,688,723
Construction in progress	3,325,012	5,330,706
Depreciable capital assets, net of accumulated depreciation	146,406,344	124,777,082
	161,420,079	141,796,511
RIGHT TO USE AND SUBSCRIPTION ASSETS, net of accumulated amortization	139,690,113	173,796,607
INVESTMENTS IN JOINT VENTURES	11,533,692	12,798,965
LONG TERM LEASE RECEIVABLE	3,958,817	4,325,405
Total assets	700,855,060	635,917,900
DEFERRED OUTFLOWS OF RESOURCES		
Deferred other post-employment benefits outflows	1,210,379	1,170,211
Deferred losses on bond refundings	3,019,656	3,566,609
Total deferred outflows of resources	4,230,035	4,736,820
Total assets and deferred outflows of resources	\$ 705,085,095	\$ 640,654,720

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position
December 31, 2024 and 2023

	2024	2023 (As Restated)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 30,162,959	\$ 33,178,293
Accrued salaries, wages, and employee benefits	18,698,191	18,094,925
Estimated third-party payor settlements	29,916,351	27,283,409
Accrued interest payable	1,705,173	1,157,725
Current portion of lease and subscription liability	10,077,550	35,644,506
Current portion of compensated absences	22,573,912	19,054,292
Current portion of long-term debt	11,164,101	10,882,090
Total current liabilities	124,298,237	145,295,240
LEASE AND SUBSCRIPTION LIABILITY, net of current portion	134,350,212	138,129,864
LONG TERM DEBT, net of current portion	184,599,562	121,267,306
OTHER POST-EMPLOYEEMNT BENEFIT LIABILITY	7,872,451	7,336,232
ESTIMATED PROFESSIONAL LIABILITY	7,452,954	8,074,997
COMPENSATED ABSENCES, net of current portion	5,586,510	5,419,280
Total liabilities	464,159,926	425,522,919
DEFERRED INFLOWS OF RESOURCES		
Deferred lease inflows	4,089,906	4,414,732
Deferred gains on bond refunding	27,422	29,545
Total deferred inflows of resources	4,117,328	4,444,277
NET POSITION		
Net investment in capital assets	8,562,378	38,134,903
Restricted for debt service	14,274,442	10,867,630
Unrestricted	213,971,021	161,684,991
Total net position	236,807,841	210,687,524
Total liabilities, deferred inflows of resources, and net position	\$ 705,085,095	\$ 640,654,720

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2024 and 2023

	2024	2023 (As Restated)
OPERATING REVENUES		
Net patient service revenue (net of provision for uncollectible accounts of \$21,039,882 in 2024 and \$14,072,935 in 2023)	\$ 660,421,124	\$ 575,011,587
Other operating revenues	30,066,731	34,435,932
Total operating revenues	690,487,855	609,447,519
OPERATING EXPENSES		
Salaries and wages	304,289,792	263,537,697
Employee benefits	71,718,517	61,387,374
Professional fees	38,167,268	40,058,111
Supplies	125,058,543	111,097,973
Purchased services	61,787,593	53,468,785
Other	31,528,700	28,578,738
Depreciation and amortization	35,415,049	28,037,948
Interest and amortization	16,086,112	9,623,841
Total operating expenses	684,051,574	595,790,467
Operating income	6,436,281	13,657,052
NONOPERATING INCOME, net		
FEMA and other assistance	3,789,654	185,439
Investment income	7,534,486	7,531,824
Revenues from tax levies for general obligation bonds	5,450,394	5,137,773
Interest and amortization expense	(588,164)	(1,064,301)
Other (expense) income	(57,867)	93,834
Nonoperating income, net	16,128,503	11,884,569
Change in net position before capital contributions and transfers	22,564,784	25,541,621
CAPITAL CONTRIBUTIONS	3,216,691	1,125,954
GAIN ON TRANSFER OF ASSETS	338,842	1,019,410
CHANGE IN NET POSITION	26,120,317	27,686,985
NET POSITION, beginning of year	210,687,524	183,000,539
NET POSITION, end of year	\$ 236,807,841	\$ 210,687,524

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023 (As Restated)
Increase (Decrease) in Cash and Cash Equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 655,787,675	\$ 580,293,932
Cash paid to suppliers	(263,574,614)	(227,569,228)
Cash paid to employees	(371,222,142)	(320,928,583)
Other cash receipts	20,091,357	16,890,923
Net cash from operating activities	41,082,276	48,687,044
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from FEMA and other assistance	3,789,654	185,439
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(42,852,620)	(31,996,885)
Principal payments on long term debt	(10,937,636)	(10,036,446)
Interest paid on long-term debt	(9,577,107)	(5,439,093)
Proceeds from issuance of long-term debt	72,559,220	3,212,897
Proceeds from issuance of bond premiums	2,708,864	-
Cash received from tax revenues for general obligation bonds	5,453,065	5,147,950
Cash received from capital contributions	3,216,691	1,125,954
Cash paid for leases and subscriptions	(16,958,471)	(16,245,940)
Other	1,912,702	1,013,533
Net cash from capital and related financing activities	5,524,708	(53,218,030)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash distributions from joint ventures	2,889,503	2,603,962
Net change in investments and other noncurrent cash and investments	(56,411,503)	(11,392,659)
Investment income	9,317,853	4,561,046
Net cash from investing activities	(44,204,147)	(4,227,651)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	6,192,491	(8,573,198)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	39,731,448	48,304,646
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u>\$ 45,923,939</u>	<u>\$ 39,731,448</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO THE STATEMENTS OF NET POSITION		
Cash	\$ 12,824,952	\$ 30,490,019
Cash equivalents included with short term investments	31,558,161	8,343,193
Restricted cash and cash equivalents	1,540,826	898,236
	<u>\$ 45,923,939</u>	<u>\$ 39,731,448</u>

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023 (As Restated)
Increase (Decrease) in Cash and Cash Equivalents		
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 6,436,281	\$ 13,657,052
Adjustments to reconcile operating income to net cash from operating activities		
Net change in other post-employment benefit liability	496,051	469,469
Investment gain considered an investing activity	(1,723,813)	(1,071,602)
Interest expense considered a capital financing activity	16,086,112	9,623,841
Depreciation and amortization	35,415,049	28,037,948
Income recognized from joint ventures	(1,624,230)	(2,026,580)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(7,266,391)	(10,703,368)
Other receivables	(6,627,331)	(14,446,827)
Supplies inventory	(931,782)	(741,992)
Prepaid expenses and other assets	(3,684,674)	(331,351)
Accounts payable	(1,794,011)	6,068,256
Accrued salaries, wages, and employee benefits	603,266	687,336
Estimated third-party payor settlements	2,632,942	15,985,713
Reserve for professional liability costs	(622,043)	639,466
Reserve for compensated absences	3,686,850	2,839,683
Net cash from operating activities	<u>\$ 41,082,276</u>	<u>\$ 48,687,044</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Right to use lease assets exchanged for lease liabilities	\$ 6,091,406	\$ 87,887,781
Subscription assets exchanged for subscription liabilities	\$ 607,479	\$ 7,609,335
Amortization of bond discount, bond premium, and loss on refunding	\$ 716,181	\$ 635,864
Change in capital assets financed through accounts payable	\$ (1,221,323)	\$ 537,447
Lease termination	\$ 26,351,102	\$ -

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 1 – Organization

Organization – Public Hospital District No. 1 of Skagit County, Washington (the District), is organized as a municipal corporation pursuant to the laws of the state of Washington. The District is governed by an elected seven-member board. The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division is known as Skagit Regional Clinics (SRC). On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH's and SRC's operations. SVH is a licensed 137-bed acute care hospital in Mount Vernon, Washington. The District also operates Camano Rural Health Clinic on Camano Island, Washington.

The District and PHD No. 3 also entered into an Affiliation Agreement Regarding the Lease and Operation of Cascade Valley Hospital (the Affiliation Agreement). Cascade Valley Hospital (CVH) is a 48-bed facility that is approximately 20 miles southeast of SVH's main campus. In accordance with Affiliation Agreement, the District began operating CVH on June 1, 2016. The Affiliation Agreement is structured as a long term lease (the Lease) between PHD No. 3 and the District. PHD No. 3 leased substantially all of its assets, certain other clinic facilities, PHD No. 3's interest as lessor in certain leases, and intangible assets to the District for a term of 30 years. The District will pay PHD No. 3 an annual base rent of \$10 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Pursuant to the Affiliation Agreement, PHD No. 3 transferred all of its cash and cash equivalents of a retained amount to the District in 2017. The retained amount is equal to PHD No. 3's known and contingent liabilities and debts, plus a minimum cash balance of \$1,000,000. Thereafter, PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by PHD No. 3. The proceeds from PHD No. 3's regular property tax levy and the Smokey Point LLC lease will be used to pay PHD No. 3's expenses, including the annual debt service on outstanding limited tax general obligations, and to fund the minimum cash balance of \$1,000,000. To the extent the amount collected by PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds PHD No. 3's existing obligations in any year, and the PHD No. 3 cash balance is equal to \$1,000,000, the excess funds will be transferred to the District. Cash transferred by PHD No. 3 to the District resulted in a gain on transfer of assets of \$338,842 and \$1,019,410 for the years ended December 31, 2024 and 2023, respectively.

The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Note 2 – Summary of Significant Accounting Policies

Blended component unit – For financial reporting purposes, component units are entities that are legally separate organizations for which the District is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on these criteria, the following is considered a component unit of the District's reporting entity.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

The Cascadia Care Network (CCN) is a blended component unit of the District and is included within the accompanying financial statements. The CCN is a Medicare accountable care organization with limited powers and is governed by a board of managers, who are appointed by the District's board of commissioners. The District's management has operational responsibility for the CCN. The District has recorded the revenue, obligations, and the related assets, in the accompanying financial statements of the District.

Accounting standards – The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – The District defines cash on deposit, investments in local government investment pool (LGIP) included in short term investments and other noncurrent cash and investments, and other highly liquid investments with initial maturity periods of three months or less to be cash and cash equivalents for purposes of the Statement of Cash Flows.

Investments – The District invests funds not immediately needed for expenditure in accordance with Washington State law. The District accounts for its marketable investments at fair value. Short term investments consist of unrestricted and undesignated investments in the LGIP and other investments with less than one year to maturity as of the years ended December 31, 2024 and 2023. Investments consist of unrestricted and undesignated investments with more than one year to maturity as of the years ended December 31, 2024 and 2023.

Other noncurrent cash and investments – Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements and self-insurance reserves. In addition, certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. Pool A and Pool B funds are restricted for capital improvements and operations of CVH as defined in the Affiliation Agreement. These funds are invested in bankers' acceptances, obligations of the United States Government, the State Treasurer's Investment Pool, and certificates of deposit with financial institutions in accordance with state guidelines.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

All District investments are carried at market value. Investment income or losses earned on self-insurance funds and the revenue bond indenture agreements are reported as other operating revenue. Investment income or losses earned on other investments are reported as nonoperating gains and losses.

Patient accounts receivable – Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient accounts receivable, the District analyzes its history and identifies trends for each of its major payors sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients' balances (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Supplies inventory – Supplies inventory, consisting of medicine and medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value.

Leases and subscriptions –

Lessee – The District has a policy to recognize a lease and subscription liability and a right-to-use and subscription asset in the statements of net position. For leases and subscription-based IT arrangements with a maximum possible term of 12 months or less at commencement, the District recognizes expense based on the terms of the contract. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease and subscription liability.

At the commencement of a lease and subscription, the District initially measures the lease and subscription liability at the present value of payments expected to be made during the lease and subscription term. Subsequently, the lease and subscription liability is reduced by the principal portion of lease and subscription payments made.

Right-to-use lease and subscription assets are recorded at the amount of the initial measurement of the lease and subscription liability and modified by any lease and subscription payments made to the lessor at or before the commencement of the term, less any incentives received from the lessor at or before the commencement of the lease and subscription term, along with any initial direct costs that are ancillary changes necessary to place the asset into service. Right-to-use lease and subscription assets are amortized using the straight-line method over the shorter of the contract term or the useful life of the underlying asset unless the contract contains a purchase option that the District has determined is reasonably certain of being exercised. In this case, the right-to-use lease and subscription assets are amortized over the useful life of the underlying asset.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Key estimates and judgments related to leases and subscriptions include how the District determines (1) the discount rate it uses to discount the expected lease and subscription payments to present value, (2) contract term, and (3) lease and subscription payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.
- The lease and subscription term includes the noncancellable period of the agreement. Lease and subscription payments included in the measurement of the lease and subscription liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and subscription contracts and will remeasure the right-to-use lease and subscription asset and subscription liability if certain changes occur that are expected to significantly affect the amount of the lease and subscription liability.

In 2024, the District executed its option to purchase a leased building, resulting in an increase in capital assets and an offsetting reduction of the right-to-use asset and lease liability of \$26,351,102 from the lease termination.

Lessor – The District recognizes a lease receivable and deferred inflow of resources in the financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease receivable.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the lease term in a systematic and rational method.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Capital assets – Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The District's capitalization threshold is \$1,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	3 – 40 years
Buildings	15 – 40 years
Fixed equipment	3 – 25 years
Major movable and minor equipment	3 – 20 years

Federal income taxes – The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

Investments in joint ventures – The District has investments in several different joint ventures providing health care services and health care facilities and equipment leasing. The District accounts for these investments using the equity method, under which the District's share of net income is reported in other operating revenues.

Compensated absences – District employees earn Paid Time Off (PTO) or Annual Leave (AL), depending on their employment classification. Accrual rates are based on the employee's level of employment, applicable labor agreements, and length of service. PTO and AL may be converted to monetary compensation upon termination of employment. The District recognizes PTO and AL liabilities as the benefits are earned. In addition, the District provides Extended Illness Bank (EIB) and Sick Leave (SL) benefits, which are accrued based on hours worked during each biweekly pay period. EIB and SL balances are not eligible for monetary compensation upon termination. The District recognizes EIB and SL liabilities that are more than likely than not to be used. Accrued compensated absences as of December 31, 2024 and 2023 totaled \$28,160,422 and \$24,473,572, respectively.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; medical malpractice; and employee accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The District pays certain workers' compensation claims on a self-insured basis. The District has purchased stop-loss insurance to cover workers' compensation claims that exceed stated limits and has recorded an estimated reserve for incurred but not reported claims based on an actuarial estimate, which was \$3,907,939 and \$3,661,643 at December 31, 2024 and 2023, respectively. These amounts are recorded in accrued salaries, wages, and employee benefits on the statements of net position. The District also pays certain professional liability claims on a self-insured basis (Note 12). In 2024, the District began self-funding its employee medical insurance program and pays eligible claims directly, subject to stop-loss coverage. The District has recorded an estimated self-insured medical reserve for incurred but not reported claims based on an actuarial estimate, which was \$4,100,476 at December 31, 2024. These amounts are recorded in accounts payable on the statements of net position.

Postemployment benefits other than pensions (OPEB) – The net OPEB liability is measured at the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates (Note 11).

Net position – Net position of the District is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, and right-to-use lease and subscription assets, net of accumulated amortization reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets and lease and subscription liabilities. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing health care services—the District's primary business. Nonexchange revenues, such as revenues for tax levies and contributions for other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs related to general obligation bonds. Tax levy income and debt service related to general obligation bonds and peripheral or incidental transactions are reported as nonoperating gains and losses.

Net patient service revenue – Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Reimbursements received from certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

Federal Emergency Management Agency Public Assistance Program – The District has received funds from the Federal Emergency Management Agency (FEMA) Public Assistance Program under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Per United States Department of Health and Human Services (HHS) guidance, these funds are to be used towards COVID-19 specific expenditures and to assist with lost revenues associated with lower volumes and cancellations of procedures and services. The District recognizes revenue upon meeting the eligibility requirements associated with the funding. The CARES Act guidelines stipulate certain conditions that are required to be met, such as the incurrence of eligible expenditures or loss of revenue. Those conditions are identified, for accounting and financial reporting purposes, as eligibility requirements.

Financial assistance – The District provides care to patients who meet certain criteria under its financial assistance policies. Because the District does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as net patient service revenue. Forgone revenue for financial assistance provided during the years ended December 31, 2024 and 2023, measured by the District's standard charges, was \$20,030,014 and \$17,134,697, respectively.

Recently adopted accounting pronouncements – The GASB issued Statement No. 100, *Accounting Changes and Error Correction – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for reporting periods beginning after June 15, 2023, but did not have a material effect on the District's financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which is effective for the year ended December 31, 2024. This statement provides guidance on the accounting and financial reporting for compensated absences. This statement requires the recognition of liabilities for compensated absences for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means, provided the leave is attributable to services rendered, accumulates, and is likely to be used or paid in cash. The District has adopted this new standard retroactively by restating the financial statements for all periods presented. The beginning balance of the net position was restated as of January 1, 2023, and December 31, 2023, resulting in increases in net position of approximately \$8,751,000 and \$9,920,000, respectively, and the recognition of current and noncurrent compensated absences of approximately \$4,706,000 and \$5,419,000, respectively, as of December 31, 2023. The adoption of GASB No. 101 did not have a material impact on the 2023 amounts as previously reported.

Reclassifications – The District reclassified certain amounts relating to its prior period results to conform to its current period presentation within the financial statements. These reclassifications have not changed the results of operations of prior periods.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 3 – Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of Medicare severity diagnosis-related groups (MS-DRGs). Each MS-DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that MS-DRG. The District's classification of MS-DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications. The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2021 for CVH and 2020 for SVH. Net revenue billed under Medicare totaled \$271,004,955 and \$268,024,324 for the years ended December 31, 2024 and 2023, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2024 and 2023, were \$27,157,187 and \$24,261,891, respectively.

Medicaid – The District is reimbursed for Medicaid services under the Certified Public Expenditures (CPE) and State Directed Payment Program (DPP) applicable to all noncritical access Washington State governmental hospitals.

- a) *CPE* – Under this program, the District is paid for Medicaid services based on certain costs as determined by Medicaid. The estimated costs for inpatient care are calculated as a ratio of cost to charges from a base year (two years before the service year). Under these programs, the District will be reimbursed the higher of the cost of service or “baseline” reimbursement that would have been received based on the pre-July 1 inpatient payment system. Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District's allowable operating expenses to total allowable revenue. The District has finalized the Medicaid CPE cost reports through state fiscal year ending June 30, 2020.
- b) *DPP* – Beginning January 1, 2024, the District participated in the Medicaid Directed Payment Program administered by the Washington State Health Care Authority (WSHCA). Under the DPP, the District receives supplemental payments that bridge the gap between standard Medicaid Managed Care payments and 95% of the Average Commercial Rate (ACR) of the eight Public Hospital Disproportionate Share Hospitals. To access the federal match, the District funds the nonfederal share through intergovernmental transfers (IGTs) to WSHCA.

Revenue recognized from the DPP totaled \$43,356,712 for the year ended December 31, 2024, which is recorded as an offset contractual allowances within net patient service revenue on the statements of revenue, expenses, and changes in net position for the year ended December 31, 2024.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

The District's estimates of final settlements to or from Medicare and Medicaid through 2024 have been recorded in the accompanying statements of net position. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement and were not significant for the years ended December 31, 2024 and 2023. Net revenue billed under the Medicaid program totaled \$113,521,474 and \$59,291,918 for the years ended December 31, 2024 and 2023, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2024 and 2023, were \$7,406,762 and \$7,493,027, respectively.

Other third-party payors – The District has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

The following are the components of net patient service revenue for the District for the years ended December 31, 2024 and 2023:

	2024	2023
Gross patient service revenue	\$ 2,275,236,482	\$ 2,023,286,455
Less adjustments to gross patient service revenue		
Contractual adjustments	1,573,745,462	1,417,067,236
Provision for uncollectible accounts	21,039,882	14,072,935
Financial assistance	20,030,014	17,134,697
Total adjustments to gross patient service charges	1,614,815,358	1,448,274,868
Net patient service revenue	\$ 660,421,124	\$ 575,011,587

Note 4 – Deposits, Investments, and Other Noncurrent Cash and Investments

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool (LGIP), eligible bankers' acceptances, repurchase agreements, and bonds.

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

At December 31, 2024 and 2023, all deposits and investments of the District are categorized as Category 1 and consist of the following:

	2024	2023
Cash	\$ 12,824,952	\$ 30,490,019
Investments		
Commercial paper	-	466,776
Investment in State Treasurer's Investment Pool	31,558,161	8,343,193
U.S. Treasury securities	45,711,124	19,376,289
U.S. government agency obligations	-	465,839
Domestic corporate bonds	6,602,731	2,665,880
Foreign bonds	3,415,527	1,700,425
Other assets	443,787	67,318
	<u>87,731,330</u>	<u>33,085,720</u>
Other noncurrent cash and investments		
Cash	1,508,065	634,383
Commercial paper	-	3,517,224
Investment in State Treasurer's Investment Pool	32,761	263,853
U.S. Treasury securities	132,410,407	93,531,101
U.S. government agency obligations	-	3,510,161
Domestic corporate bonds	17,114,367	20,087,790
Foreign bonds	8,853,091	12,812,953
	<u>159,918,691</u>	<u>134,357,465</u>
Total deposits and investments	<u>\$ 260,474,973</u>	<u>\$ 197,933,204</u>

The composition of investments, reported at fair value by investment type at December 31, 2024, and excluding cash and LGIP balances of \$33,098,987, is as follows:

Investment Type	Quoted prices in Active Markets for Identical assets (Level 1)	Inputs Other than Quoted Prices that are Directly or Indirectly Observable (Level 2)	Total	Percentage of Totals
U.S. Treasury securities	\$ 178,121,531	\$ -	\$ 178,121,531	83%
Domestic corporate bonds	-	23,717,098	23,717,098	11%
Foreign bonds	-	12,268,618	12,268,618	6%
Other	-	443,787	443,787	0%
	<u>\$ 178,121,531</u>	<u>\$ 36,429,503</u>	<u>\$ 214,551,034</u>	<u>100%</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

The composition of investments, reported at fair value by investment type at December 31, 2023, and excluding cash and LGIP balances of \$9,241,429, is as follows:

Investment Type	Quoted prices in Active Markets for Identical assets (Level 1)	Inputs Other than Quoted Prices that are Directly or Indirectly Observable (Level 2)	Total	Percentage of Totals
Commercial paper	\$ -	\$ 3,984,000	\$ 3,984,000	3%
U.S. Treasury securities	112,907,390	-	112,907,390	71%
U.S. government agency obligations	-	3,976,000	3,976,000	3%
Domestic corporate bonds	-	22,753,670	22,753,670	14%
Foreign bonds	-	14,513,378	14,513,378	9%
Other	-	67,318	67,318	0%
	<u>\$ 112,907,390</u>	<u>\$ 45,294,366</u>	<u>\$ 158,201,756</u>	<u>100%</u>

The District's deposits and investments had the following maturities at December 31, 2024:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1–5
U.S. Treasury securities	\$ 178,121,531	\$ 64,274,564	\$ 113,846,967
Domestic corporate bonds	23,717,098	1,806,223	21,910,875
Foreign bonds	12,268,618	1,825,130	10,443,488
Other assets	443,787	443,787	-
Total investments	<u>\$ 214,551,034</u>	<u>\$ 68,349,704</u>	<u>\$ 146,201,330</u>

The District participates in the LGIP. The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited. The investments held are all investment grade securities that are rated A- and higher by Standard and Poor's. Obligations of the U.S. government and obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the Federal Deposit Insurance Corporation. Collateral protection is provided by the Washington Public Deposit Protection Commission.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Custodial credit risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All U.S. government securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 60 months from settlement date to maturity date unless matched to a specific cash flow requirement.

In addition to investment income of \$7,534,486 and \$7,531,824 for the years ended December 31, 2024 and 2023, respectively, included in nonoperating income, investment income included in other operating revenues totaled \$1,723,813 and \$1,071,602 for the years ended December 31, 2024 and 2023, respectively.

Note 5 – Leases and Similar Subscription-Based Information Technology (IT) Arrangements

Lessee – The District enters into noncancellable leases primarily for buildings and equipment and subscription-based IT arrangements for the right to use information technology and hardware. The activity in the District's right to use lease and subscriptions assets and related accumulated amortization accounts as of and for the years ended December 31, 2024 and 2023, is set forth below:

	Beginning Balance January 1, 2024	Additions	Modifications/ Renewals	Deductions/ Terminations	Ending Balance December 31, 2024
RIGHT TO USE LEASE AND SUBSCRIPTION ASSETS					
Building	\$ 180,209,110	\$ 2,522,851	\$ (820,424)	\$ (26,752,128)	\$ 155,159,409
Equipment	8,415,981	3,568,555	(356,621)	(47,796)	11,580,119
Subscription	9,115,747	607,479	133,738	(58,464)	9,798,500
Total right to use lease and subscription assets	<u>197,740,838</u>	<u>6,698,885</u>	<u>(1,043,307)</u>	<u>(26,858,388)</u>	<u>176,538,028</u>
LESS ACCUMULATED AMORTIZATION FOR					
Building	(20,327,878)	(8,947,727)	-	523,520	(28,752,085)
Equipment	(2,290,213)	(1,707,632)	-	-	(3,997,845)
Subscription	(1,326,140)	(2,791,333)	-	19,488	(4,097,985)
Total accumulated amortization	<u>(23,944,231)</u>	<u>(13,446,692)</u>	<u>-</u>	<u>543,008</u>	<u>(36,847,915)</u>
Total right to use lease and subscription assets, net	<u>\$ 173,796,607</u>	<u>\$ (6,747,807)</u>	<u>\$ (1,043,307)</u>	<u>\$ (26,315,380)</u>	<u>\$ 139,690,113</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

	Beginning Balance January 1, 2023	Additions	Modifications/ Renewals	Deductions/ Terminations	Ending Balance December 31, 2023
RIGHT TO USE LEASE AND SUBSCRIPTION ASSETS					
Building	\$ 97,460,512	\$ 83,216,272	\$ (111,052)	\$ (356,622)	\$ 180,209,110
Equipment	5,807,492	4,671,509	-	(2,063,020)	8,415,981
Subscription	1,506,412	7,609,335	-	-	9,115,747
Total right to use lease and subscription assets	104,774,416	95,497,116	(111,052)	(2,419,642)	197,740,838
LESS ACCUMULATED AMORTIZATION FOR					
Building	(12,933,975)	(7,750,525)	-	356,622	(20,327,878)
Equipment	(1,376,958)	(955,402)	-	42,147	(2,290,213)
Subscription	(375,283)	(950,857)	-	-	(1,326,140)
Total accumulated amortization	(14,686,216)	(9,656,784)	-	398,769	(23,944,231)
Total right to use lease and subscription assets, net	\$ 90,088,200	\$ 85,840,332	\$ (111,052)	\$ (2,020,873)	\$ 173,796,607

Amortization expense of right to use lease and subscription assets for the years ended December 31, 2024 and 2023, was \$13,446,692 and \$9,656,784, respectively.

Lease and subscription liabilities – Changes in lease and subscription liabilities during the years ended December 31, 2024 and 2023, are summarized below:

Year Ending December 31,	Beginning Balance	Additions	Remeasurements/ Renewals	Reductions	Ending Balance	Amounts Due Within One Year
2024	\$ 173,774,370	\$ 6,178,012	\$ 520,873	\$ (36,045,493)	\$ 144,427,762	\$ 10,077,550
2023	\$ 92,207,417	\$ 95,432,388	\$ 64,728	\$ (13,930,163)	\$ 173,774,370	\$ 35,644,506

The following schedule shows future annual lease and subscription payments, and in five year increments thereafter, as of December 31, 2024, for both principal and interest:

Year Ending December 31,	Lease and Subscription Liabilities		
	Principal	Interest	Total
2025	\$ 10,077,550	\$ 6,491,473	\$ 16,569,023
2026	9,485,219	6,320,393	15,805,612
2027	8,518,961	5,888,324	14,407,285
2028	8,363,107	5,575,959	13,939,066
2029	8,382,322	5,321,215	13,703,537
2030–2034	96,113,361	17,837,504	113,950,865
2035–2038	3,487,242	96,242	3,583,484
Total payments	\$ 144,427,762	\$ 47,531,110	\$ 191,958,872

Lessor – The District is a lessor for leases of building space and land to physician groups and others for medical practices and medical offices.

Public Hospital District No. 1 of Skagit County, Washington
Notes to Financial Statements

Revenue from leases for the years ended December 31, 2024 and 2023, is as follows:

	2024	2023
Lease revenue	\$ 324,884	\$ 324,884
Interest revenue	76,378	81,185
Total	<u>\$ 401,262</u>	<u>\$ 406,069</u>

The following schedule shows future annual lease receipts, and in five year increments thereafter, at December 31, 2024, for both principal and interest:

Year Ending December 31,	Lease Receivable		
	Principal	Interest	Total
2025	\$ 307,514	\$ 71,376	\$ 378,890
2026	319,734	65,959	385,693
2027	332,339	60,328	392,667
2028	345,184	54,632	399,816
2029	55,952	50,714	106,666
2030-2034	294,603	238,708	533,311
2035-2039	321,212	212,062	533,274
2040-2044	350,128	183,104	533,232
2045-2049	381,870	151,317	533,187
2050-2054	416,363	116,775	533,138
2055-2059	443,972	79,113	523,085
2060-2064	494,964	38,062	533,026
2065-2067	202,496	2,932	205,428
Total payments	<u>\$ 4,266,331</u>	<u>\$ 1,325,082</u>	<u>\$ 5,591,413</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 6 – Capital Assets

Capital asset additions, retirements, and balances as of and for the years ended December 31, 2024 and 2023, were as follows:

	Beginning Balance January 1, 2024	Additions	Retirements	Account Transfers	Ending Balance December 31, 2024
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 11,688,723	\$ -	\$ -	\$ -	\$ 11,688,723
Construction in progress	5,330,706	4,386,223		(6,391,917)	3,325,012
Total nondepreciable capital assets	17,019,429	4,386,223	-	(6,391,917)	15,013,735
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,294,917	1,295	-	-	7,296,212
Buildings and leasehold improvements	152,404,474	27,402,937	(878,622)	6,070,696	184,999,485
Fixed equipment	17,586,034	337,856	(654,032)	136,234	17,406,092
Movable equipment	141,237,704	9,502,986	(9,990,618)	184,987	140,935,059
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(4,946,034)	(216,209)	-	-	(5,162,243)
Buildings and leasehold improvements	(90,287,511)	(7,179,852)	733,124	-	(96,734,239)
Fixed equipment	(14,507,991)	(416,385)	654,031	-	(14,270,345)
Movable equipment	(84,004,511)	(14,155,911)	10,096,745	-	(88,063,677)
Depreciable capital assets, net	124,777,082	15,276,717	(39,372)	6,391,917	146,406,344
	<u>\$ 141,796,511</u>	<u>\$ 19,662,940</u>	<u>\$ (39,372)</u>	<u>\$ -</u>	<u>\$ 161,420,079</u>
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 11,712,330	\$ -	\$ (23,607)	\$ -	\$ 11,688,723
Construction in progress	3,196,631	19,972,153	-	(17,838,078)	5,330,706
Total nondepreciable capital assets	14,908,961	19,972,153	(23,607)	(17,838,078)	17,019,429
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,294,917	-	-	-	7,294,917
Buildings and leasehold improvements	148,105,824	1,725,578	(2,443,945)	5,017,017	152,404,474
Fixed equipment	22,093,746	351,104	(5,043,556)	184,740	17,586,034
Movable equipment	140,233,682	9,546,918	(21,179,217)	12,636,321	141,237,704
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(4,708,526)	(237,508)	-	-	(4,946,034)
Buildings and leasehold improvements	(86,752,433)	(5,934,710)	2,399,632	-	(90,287,511)
Fixed equipment	(18,790,278)	(742,592)	5,024,879	-	(14,507,991)
Movable equipment	(93,667,656)	(11,466,354)	21,129,499	-	(84,004,511)
Depreciable capital assets, net	113,809,276	(6,757,564)	(112,708)	17,838,078	124,777,082
	<u>\$ 128,718,237</u>	<u>\$ 13,214,589</u>	<u>\$ (136,315)</u>	<u>\$ -</u>	<u>\$ 141,796,511</u>

Depreciation and amortization expense of operating assets for the years ended December 31, 2024 and 2023, was \$21,968,357 and \$18,381,164, respectively.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 7 – Investments in Joint Ventures

Cascade Imaging Associates, LLC – Together with a local radiology group, the District formed Cascade Imaging Associates, LLC (CIA), a limited liability company, to provide magnetic resonance imaging and computer-assisted tomography services to the residents of the community. The District has a 50% interest in CIA at December 31, 2024 and 2023. During the years ended December 31, 2024 and 2023, the District recognized operating income of \$1,395,928 and \$1,483,135, respectively, for its share of the net income realized by CIA. The District's recorded investment in CIA was \$1,641,054 and \$1,745,125 at December 31, 2024 and 2023, respectively.

Skagit Digital Imaging, LLC – Together with a local radiology group, the District formed Skagit Digital Imaging, LLC (SDI), a limited liability company, to provide mammography and stereotactic biopsy services to the residents of the community. The District has a 50% interest in SDI at December 31, 2024 and 2023. During the years ended December 31, 2024 and 2023, the District recognized an operating loss of \$372,515 and \$425,213, respectively, for its share of the net loss realized by SDI. The District's recorded investment in SDI was \$583,889 and \$956,404 at December 31, 2024 and 2023, respectively.

Skagit Hospice Services, LLC – Together with Public Hospital District No. 304 of Skagit County, Washington, the District formed Skagit Hospice Services, LLC, dba Hospice of the Northwest (Hospice), a limited liability company, to provide hospice services to the residents of the community. The District has a 50% interest in Hospice at December 31, 2024 and 2023. During the year ended December 31, 2024, the District recognized an operating loss of \$478,857 for its share of the net loss realized by Hospice. During the year ended December 31, 2023, the District recognized operating income of \$18,940 for its share of the net income realized by Hospice. The District's recorded investment in Hospice was \$1,135,915 and \$1,611,771 at December 31, 2024 and 2023, respectively.

Skagit Valley Real Estate Partnership – As part of the closing of the integration with SRC in 2013, the District purchased a membership interest in Skagit Valley Real Estate Partnership (SVREP), a partnership that invests in and develops real property located mainly in Skagit and Snohomish Counties, Washington. The District has a 30% interest in SVREP at December 31, 2024 and 2023. During the years ended December 31, 2024 and 2023, the District recognized operating income of \$643,882 and \$484,435, respectively, for its share of the net income realized by SVREP. The District's recorded investment in SVREP was \$4,367,397 and \$4,326,515 at December 31, 2024 and 2023, respectively.

Smokey Point Medical Center, LLC – Together with PHD No. 3, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns the building, land, and equipment leased to the District and PHD no. 3 to operate the Smokey Point clinics. The District has a 50% interest in SPMC at December 31, 2024 and 2023. During the years ended December 31, 2024 and 2023, the District recognized operating income of \$444,622 and \$451,697, respectively, for its share of the net income realized by SPMC. The District's recorded investment in SPMC was \$3,773,772 and \$4,159,150 at December 31, 2024 and 2023, respectively.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Aggregated financial information for all of the District's joint ventures is summarized below:

	<u>2024</u>	<u>2023</u>
Current assets	\$ 12,248,485	\$ 12,235,291
Noncurrent assets, net	<u>32,016,835</u>	<u>34,603,243</u>
	<u><u>\$ 44,265,320</u></u>	<u><u>\$ 46,838,534</u></u>
Current liabilities	\$ 4,525,664	\$ 4,184,964
Long term liabilities	19,874,815	21,687,284
Equity	<u>19,864,841</u>	<u>20,966,286</u>
	<u><u>\$ 44,265,320</u></u>	<u><u>\$ 46,838,534</u></u>
Revenue	\$ 42,464,618	\$ 38,325,718
Expenses	<u>37,932,421</u>	<u>33,069,457</u>
Net income	<u><u>\$ 4,532,197</u></u>	<u><u>\$ 5,256,261</u></u>

For more information on these joint ventures, including financial statements for the individual joint ventures, please contact the Business Services office of the District.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 8 – Long Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long term debt at December 31, 2024 and 2023, for the District consisted of the following:

	<u>2024</u>	<u>2023</u>
Direct placement revenue refunding bond, 2021, 2.10%, due annually on December 1, in amounts from \$115,000 in 2025, to \$5,035,000 in 2037, maturing in 2037.	\$ 14,475,000	\$ 14,585,000
Direct placement revenue refunding bond, 2019, 3.08%, due annually on December 1, in amounts from \$905,000 in 2025, to \$7,105,000 in 2035, maturing in 2035.	28,765,000	29,645,000
Direct placement unlimited tax general obligation refunding bond, 2019, 1.85%, due annually on December 1, in amounts from \$5,250,000 in 2025, to \$6,130,000 in 2028, maturing in 2028, net of unamortized premium of \$1,254,105 and \$1,574,302 in 2024 and 2023, respectively.	23,984,105	29,274,302
Revenue and refunding bonds, 2016, 4.00% to 5.00%, due serially on December 1, in amounts from \$4,260,000 in 2025, to \$3,905,000 in 2037, maturing in 2037, net of unamortized premium of \$4,051,064 and \$4,366,731 in 2024 and 2023, respectively.	50,676,065	55,086,732
Revenue bonds, 2024, 5.50%, due annually on December 1, in amounts from \$2,685,000 in 2038, to \$6,320,000 in 2054, maturing in 2054, net of unamortized premium of \$2,628,547 in 2024.	75,083,547	-
Other notes payable, due in quarterly and annual installments of \$94,000 and \$296,000, respectively, including interest ranging from 4.30% to 6.63%, maturities ranging from 2028 through 2029.	<u>2,779,946</u>	<u>3,558,362</u>
	195,763,663	132,149,396
Less current portion	<u>(11,164,101)</u>	<u>(10,882,090)</u>
	<u>\$ 184,599,562</u>	<u>\$ 121,267,306</u>

During 2024, the District issued the 2024 revenue bonds to purchase the Station Square medical office building, construct a medical office building in the District's southern market, centered around CVH, and reimburse the District for furnishing and equipping the Mount Vernon Surgery Center and Station Square medical office building. The issuance resulted in the recognition of a bond premium of \$2,708,864, which is amortized over the life of the bond.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

During 2021, the District issued the 2021 direct placement revenue refunding bond to carry out a taxable refunding of a portion of the 2013A revenue and refunding bonds. The refunding resulted in the recognition of an accounting gain of \$33,968, which will be deferred and amortized over the life of the 2013A bond, which was set to mature in 2037 and is classified as a deferred inflow of resources on the statements of net position. The refunding decreased the District's aggregate debt service payments by \$4,347,000 over 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$3,385,000. On September 5, 2023, the taxable bond converted to a tax-exempt bond with an interest rate of 2.10%.

During 2019, the District issued the 2019 direct placement revenue bonds to carry out a taxable refunding of the 2010 revenue bonds. The refunding resulted in the recognition of an accounting loss of \$1,593,000, which will be deferred and amortized over the life of the 2010 bond, which was set to mature in 2035 and is classified as a deferred outflow of resources on the statements of net position. The refunding decreased the District's aggregate debt service payments by \$8,426,000 over 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$6,612,000.

During 2019, the District issued the 2019 direct placement unlimited tax general obligation (UTGO) refunding bond to carry out a taxable refunding of a portion of the 2012 unlimited tax general obligation and refunding bonds. The refunding resulted in the recognition of an accounting loss of \$3,731,700, which will be deferred and amortized over the life of the 2012 bond, which was set to mature in 2028 and is classified as a deferred outflow of resources on the statements of net position. The refunding decreased the District's aggregate debt service payments by \$3,127,000 over nine years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,886,000. On December 1, 2022, the taxable bond converted to a tax-exempt bond with an interest rate of 1.85%.

As part of the bond resolutions authorizing the issuance of the 2021 direct placement revenue refunding bond, the 2019 direct placement revenue bond, the 2016 revenue and refunding bonds, and 2024 revenue bonds, the District agreed to certain covenants regarding liquidity (minimum of 60 days cash on hand (the Liquidity Requirement)) and debt service coverage (minimum of 1.25 debt service coverage ratio (the Coverage Requirement)). For the years ended December 31, 2024 and 2023, the District is not aware of any violations with its debt covenants.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Changes in the District's noncurrent liabilities during the years ended December 31, 2024 and 2023, are summarized below:

	Beginning Balance January 1, 2024	Additions	Reductions	Ending Balance December 31, 2024	Amounts Due Within One Year
LONG TERM DEBT					
2021 Direct placement revenue refunding bond	\$ 14,585,000	\$ -	\$ 110,000	\$ 14,475,000	\$ 115,000
2019 Direct placement revenue refunding bond	29,645,000	-	880,000	28,765,000	905,000
2019 Direct placement UTGO refunding bond	29,274,302	-	5,290,197	23,984,105	5,250,000
2016 Revenue and refunding bonds	55,086,732	-	4,410,667	50,676,065	4,260,000
2024 Revenue bonds	-	75,163,864	80,317	75,083,547	-
Other notes payable	3,558,362	104,220	882,636	2,779,946	634,101
Total long term debt	132,149,396	75,268,084	11,653,817	195,763,663	11,164,101
ESTIMATED PROFESSIONAL LIABILITY	8,074,997	-	622,043	7,452,954	-
COMPENSATED ABSENCES	24,473,572	3,686,850	-	28,160,422	22,573,912
Total noncurrent liabilities	\$ 164,697,965	\$ 78,954,934	\$ 12,275,860	\$ 231,377,039	\$ 33,738,013
	Beginning Balance January 1, 2023	Additions	Reductions	Ending Balance December 31, 2023	Amounts Due Within One Year
LONG TERM DEBT					
2021 Direct placement revenue refunding bond	\$ 16,695,000	\$ -	\$ 2,110,000	\$ 14,585,000	\$ 110,000
2019 Direct placement revenue refunding bond	30,500,000	-	855,000	29,645,000	880,000
2019 Direct placement UTGO refunding bond	30,029,499	-	755,197	29,274,302	4,970,000
2012 UTGO refunding bonds	4,155,000	-	4,155,000	-	-
2016 Revenue and refunding bonds	57,317,399	-	2,230,667	55,086,732	4,095,000
Other notes payable	911,911	3,212,897	566,446	3,558,362	827,090
Total long term debt	139,608,809	3,212,897	10,672,310	132,149,396	10,882,090
ESTIMATED PROFESSIONAL LIABILITY	7,435,531	639,466	-	8,074,997	-
COMPENSATED ABSENCES	21,633,889	2,839,683	-	24,473,572	19,054,292
Total noncurrent liabilities	\$ 168,678,229	\$ 6,692,046	\$ 10,672,310	\$ 164,697,965	\$ 29,936,382

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Annual debt service requirements to maturity for long term debt are as follows:

Year Ending December 31,	Bonds and Notes Payable			Direct Placement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 4,894,101	\$ 2,339,959	\$ 7,234,060	\$ 6,270,000	\$ 5,180,595	\$ 11,450,595
2026	5,042,128	2,150,484	7,192,612	6,585,000	5,784,941	12,369,941
2027	5,219,703	1,953,106	7,172,809	6,905,000	5,665,432	12,570,432
2028	5,466,475	1,701,084	7,167,559	7,245,000	5,586,501	12,831,501
2029	5,408,801	1,436,327	6,845,128	1,150,000	5,459,324	6,609,324
2030–2034	18,038,739	21,096,625	39,135,364	17,530,000	6,773,610	24,303,610
2035–2039	10,850,000	20,682,700	31,532,700	20,285,000	875,084	21,160,084
2040 - 2044	16,670,000	16,673,250	33,343,250	-	-	-
2045 - 2049	21,790,000	11,555,225	33,345,225	-	-	-
2050 - 2054	28,480,000	4,866,125	33,346,125	-	-	-
Total	121,859,947	<u>\$ 84,454,885</u>	<u>\$ 206,314,832</u>	65,970,000	<u>\$ 35,325,487</u>	<u>\$ 101,295,487</u>
Net unamortized premiums and discounts	<u>6,679,611</u>			<u>1,254,105</u>		
	<u>\$ 128,539,558</u>			<u>\$ 67,224,105</u>		

Note 9 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457(b), §401(a), and §414(h). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 9% of the employee's gross compensation earned in the prior year. Current District policy is to fund contributions. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners.

Under the §401(a) plan, the District makes contributions on behalf of eligible employees based upon funding levels ranging from 4% to 9% of an employee's gross earnings plus an additional 1/10 of 1% for each year of the first 10 years of credited service. The District contributes up to 9% not to exceed the maximum federal amount for the year. Employees are not allowed to contribute to the §401(a) plan. All employee contributions are made to the §457(b) plan.

The §457(b) plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The §414(h) plan allows a limited group of employees to make an irrevocable election prior to the beginning of the plan year. The maximum contribution is the \$415 limit minus any employer §401(a) contributions. These pick-up contributions are completely voluntary and are in addition to any District contributions made to the §401(a) plan and any contributions that are made to the §457(b) deferred compensation plan. Generally, the benefits may only be distributed at termination of employment or death.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

The District has limited administrative involvement and does not perform the investing function for the plans. The District does not hold the assets of the plans in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the District employees' deferred compensation plans are not reported on the financial statements of the District.

The District's contributions to the employee benefit plans totaled \$12,549,484 and \$11,076,610 during the years ended December 31, 2024 and 2023, respectively. Contributions made by employees to the benefit plans totaled \$16,697,555 and \$14,458,759 during the years ended December 31, 2024 and 2023, respectively. For more information on the retirement plans, contact the District's director of human resources.

Note 10 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the county assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the county treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes. As the District has never established a regular tax levy, any future regular levy would require voter approval. The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2024 and 2023, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For the years ended December 31, 2024 and 2023, the tax levy for bond service was \$0.60 and \$0.61 per \$1,000 on a total assessed valuation of \$8,764,254,233 and \$8,371,797,333, for a total levy of \$5,250,142 and \$5,137,155, respectively. The District also receives revenue from timber taxes. Timber tax revenue during the years ended December 31, 2024 and 2023, was \$200,252 and \$618, respectively.

Property taxes are recorded as receivables when levied. Because state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Note 11 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Plan description – The early retirement medical benefit program became effective January 1, 2021. The District pays the full premium for retirees with 20 or more years of service between the ages of 62 and 65. The fully insured plans offered are from Premiera. Retirees' spouses may enroll until they are age 65 and have to pay the spouse portion of the premium. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Eligibility – Employees are eligible for retiree health benefits if they retire between ages 62 and 65 and have 20 or more years of service. Employees in “pay-in-lieu of benefits, <0.50 FTE, Per Diem and/or temporary” FTE status are not entitled to retirement benefits.

Benefits provided – The benefits provided by the District and valued in this report include premium reimbursement. Eligible employees receive full reimbursement for the retiree portion of medical premiums. There is no reimbursement for dental premiums or the dependent portion of medical premiums, nor spousal or dependent premiums. Medical premiums of retirees and spouses over the age of 65 are not reimbursed.

GASB 75 requires the projection of the total cost of benefit payments to be based on claims costs or age adjusted premiums approximating claims costs. Because claims costs are expected to vary by age and sex, we have used claims costs that vary by age and sex. The projection of retiree premiums is based on current amounts for the retirees’ premium, projected with the medical trend assumption.

Membership data – At December 31, 2024 and 2023, the following membership census was used:

	2024	2023
Membership census		
Retirees and surviving spouses	28	20
Actives	2,098	2,098
	<u>2,126</u>	<u>2,118</u>

Individuals covered by benefit terms – At December 31, 2024 and 2023, the following retirees and spouses were covered by the benefit terms:

	2024	2023
Retirees and spouses currently receiving benefits		
Members	28	20
Spouses	3	3

Total OPEB liability – The District’s total OPEB liability was \$7,872,451 and \$7,336,232 as of the reporting date of December 31, 2024 and 2023, respectively. The corresponding measurement date was December 31, 2023 and 2022, respectively, and the actuarial valuation date was July 1, 2022. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

Actuarial assumptions and other inputs – The total OPEB liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.35%
Salary increases	3.25% and promotion and longevity increases ranging from 6% at 0 years of service to 0% at 21+ years of service

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Even though the benefits are not based upon pay, salary assumptions are necessary for the actuarial cost method. These assumptions are for promotion and longevity and reflect the assumptions used in the actuarial valuation for Washington State Public Employees Retirement System (PERS).

Healthcare cost trend rates	Ranging from 7.80% beginning 6/30/2023 to 3.70% beginning 6/30/2077 and plus
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Discount Rate (Liabilities)	3.26%
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The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. GASB 75 requires that the discount rate be based on a 20-year high quality (AA/Aa or higher) municipal bond rate.

Demographic assumptions regarding retirement, mortality, disability mortality, turnover, and marriage are based on assumptions used in the actuarial valuation for the Washington State retirement systems and modified for the District.

- The assumed rates of disability under PERS plan 2 from the actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. An assumption of a 0% disability rate for all ages was used.
- For service retirement, the PERS plan 2, with less than 30 years of service assumptions, from the actuarial valuation for Washington State retirement systems was used. For ages 62-64, a 25% retirement each year based on recent plan experience and our expectations for future experience was assumed. The service requirements for these plans vary based on hire date and years of service. An assumption of 100% retirement at age 65 was used so that the attribution period under the actuarial cost method ends when the benefits end, as stated in A 4.383 of the implementation guide for GASB 75.
- For mortality, the assumptions from the actuarial valuation for Washington State retirement systems, adjusted for the District was used. For all healthy members, the PubG.H-2010 base mortality table with generational mortality adjustments using the long term MP-2017 generational improvement scale was used.
- For other termination of employment, the assumptions by plan from the actuarial valuation for Washington State retirement systems multiplied by 1.3 for those with 2+ years of service, but no less than 2% per year, was used.

The actuarial assumptions used for the December 31, 2024 reporting were based on a census date of July 1, 2022.

Public Hospital District No. 1 of Skagit County, Washington
Notes to Financial Statements

Changes in the total OPEB liability

Balance at December 31, 2022	\$ 5,724,482
Service cost	524,945
Interest	125,385
Effect of economic/demographic losses	671,382
Effect of assumption changes or inputs	617,255
Benefit payments	<u>(327,217)</u>
Balance at December 31, 2023	<u>7,336,232</u>
Service cost	549,516
Interest	283,987
Effect of assumption changes or inputs	210,748
Benefit payments	<u>(508,032)</u>
Net changes	<u>536,219</u>
Balance at December 31, 2024	<u><u>\$ 7,872,451</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.06% in 2022 to 3.72% in 2023 and 3.26% in 2024.

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease 2.26%	Discount Rate 3.26%	1% Increase 4.26%
2024			
Total OPEB liability	<u>\$ 8,631,582</u>	<u>\$ 7,872,451</u>	<u>\$ 7,172,566</u>
	1% Decrease 2.72%	Discount Rate 3.72%	1% Increase 4.72%
2023			
Total OPEB liability	<u>\$ 8,019,572</u>	<u>\$ 7,336,232</u>	<u>\$ 6,708,424</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
2024			
Total OPEB liability	<u>\$ 6,778,417</u>	<u>\$ 7,872,451</u>	<u>\$ 9,208,655</u>
2023			
Total OPEB liability	<u>\$ 6,431,843</u>	<u>\$ 7,336,232</u>	<u>\$ 8,431,366</u>

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB –

For the years ended December 31, 2024 and 2023, the District recognized OPEB expense of \$1,004,083 and \$796,686, respectively, which was included in Employee Benefits in the Statements of Revenues, Expenses, and Changes in Net Position.

The District reported deferred outflows of resources related to OPEB from changes of assumptions or other inputs of \$1,210,379 and \$1,170,211 for the years ended December 31, 2024 and 2023, respectively.

Note 12 – Professional Liability Insurance

The District has purchased professional liability insurance from Physicians Insurance (PI) on a claims-made basis in the amount of \$1,000,000 per occurrence, with a \$5,000,000 annual aggregate limit. The District has a retention of \$100,000 per claim with an aggregate retention of \$300,000. PI, together with MedPro and AIG, also provides excess coverage on a claims-made basis in the amount of \$44,000,000 per occurrence, with a \$50,000,000 annual aggregate limit. The District accrues an actuarial estimate of the expected value of losses and related expenses for unreported incidents and claims on an occurrence basis, which was \$7,452,954 and \$8,074,997 at December 31, 2024 and 2023, respectively.

Note 13 – Joint Venture Transactions

The District provides services, including accounting, management, and ancillary services, to the joint ventures (Note 7). The District was reimbursed approximately \$22,559,000 and \$27,035,000 in expenses related to these services for the years ended December 31, 2024 and 2023, respectively.

As of December 31, 2024 and 2023, the District had a total of approximately \$1,882,000 and \$1,907,000, respectively, in accounts receivable from joint ventures.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

The joint ventures provide various services to the District (Note 7). The District paid approximately \$20,708,000 and \$17,096,000 to the joint ventures for providing these services for the years ended December 31, 2024 and 2023, respectively.

As of December 31, 2024 and 2023, the District had a total of approximately \$1,345,000 and \$1,199,000, respectively, in accounts payable to joint ventures.

Note 14 – Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2024 and 2023, was as follows:

	2024	2023
Medicare	36%	36%
Medicaid	10%	11%
Group Health	5%	5%
Commercial	33%	34%
Other third-party payors	16%	14%
	<u>100%</u>	<u>100%</u>

Note 15 – Commitments and Contingencies

Litigation – The District is also involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District's future financial position or results from operations.

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 16 – Collective Bargaining Agreements

At December 31, 2024, the District had a total of approximately 3,226 employees. Of this total, 2,521 employees are covered by collective bargaining agreements. There are 1,821 employees under an agreement that expires during 2025. The District does not anticipate any significant interruptions as a result of negotiations surrounding the collective bargaining agreement.

Note 17 – FEMA Public Assistance Program

The District applied for expedited funding from the FEMA Public Assistance Program. The FEMA Public Assistance Program provides partial funding for costs related to emergency protective measures conducted as a result of the COVID-19 pandemic. This grant is meant to offset incremental expenses incurred as a result of the COVID-19 pandemic. This funding channel allows for an organization to receive 50% of estimated expenses prior to project close (after removing a 25% state cost share requirement). The District recognized \$3,789,654 and \$0 during the years ended December 31, 2024 and 2023, respectively, as non-operating revenue on the statements of revenues, expenses, and changes in net position.

**Report of Independent Auditors on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

The Board of Commissioners
Public Hospital District No. 1
of Skagit County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Hospital District No. 1 of Skagit County, Washington, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 1 of Skagit County, Washington's financial statements, and have issued our report thereon dated April 17, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Hospital District No. 1 of Skagit County, Washington's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Hospital District No. 1 of Skagit County, Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of Public Hospital District No. 1 of Skagit County, Washington's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Hospital District No. 1 of Skagit County, Washington's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which, could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Everett, Washington
April 17, 2025

Required Supplementary Information

Public Hospital District No. 1 of Skagit County, Washington
Schedule of Changes in Total Other Post-Employment Benefits
and Related Ratios
December 31, 2024

	2024	2023	2022	2021	2020
Total OPEB liability					
Service cost	\$ 549,516	\$ 524,945	\$ 501,919	\$ -	\$ 1,992,258
Interest	283,987	125,385	121,340	-	1,013,604
Changes of benefit terms (termination of participation in PEBB)		-	-	(25,358,933)	-
Effect of economic/demographic losses		671,382	-	-	-
Effect of assumption changes or inputs	210,748	617,255	31,104	-	5,229,798
Benefit payments	(508,032)	(327,217)	(301,481)	-	(465,133)
Net change in total OPEB liability	536,219	1,611,750	352,882	(25,358,933)	7,770,527
Total OPEB liability - beginning	7,336,232	5,724,482	5,371,600	30,730,533	22,960,006
Total OPEB liability - ending	<u>\$ 7,872,451</u>	<u>\$ 7,336,232</u>	<u>\$ 5,724,482</u>	<u>\$ 5,371,600</u>	<u>\$ 30,730,533</u>
Covered-employee payroll	<u>\$ 211,233,570</u>	<u>\$ 199,438,159</u>	<u>\$ 171,581,416</u>	<u>\$ 155,906,296</u>	<u>\$ 158,595,040</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>3.73%</u>	<u>3.68%</u>	<u>3.34%</u>	<u>3.45%</u>	<u>19.38%</u>
	2019	2018	2017		
Total OPEB liability					
Service cost	\$ 2,656,838	\$ 2,322,431	\$ 2,377,362		
Interest	893,888	800,469	688,677		
Changes of benefit terms (termination of participation in PEBB)	-	-	-		
Effect of economic/demographic losses	2,176,604	-	-		
Effect of assumption changes or inputs	(5,956,536)	1,628,431	(852,947)		
Benefit payments	(275,776)	(278,124)	(266,904)		
Net change in total OPEB liability	(504,982)	4,473,207	1,946,188		
Total OPEB liability - beginning	23,464,988	18,991,781	17,045,593		
Total OPEB liability - ending	<u>\$ 22,960,006</u>	<u>\$ 23,464,988</u>	<u>\$ 18,991,781</u>		
Covered-employee payroll	<u>\$ 154,175,746</u>	<u>\$ 170,215,023</u>	<u>\$ 150,792,481</u>		
Total OPEB liability as a percentage of covered-employee payroll	<u>14.89%</u>	<u>13.79%</u>	<u>12.59%</u>		

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for available years.

See report of independent auditors.

Public Hospital District No. 1 of Skagit County, Washington
Schedule of Changes in Total Other Post-Employment Benefits
and Related Ratios
December 31, 2024

Changes in benefit terms – There are no changes of benefit terms.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.

See report of independent auditors.

